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SUBJECT: ARMENIA'S CONTINGENCY PLAN FOR IF-AND-WHEN RUSSIA
CUTS THE GAS

REF: A) YEREVAN 127 B) YEREVAN 1537 C) BAKU 1771

Classified By: EconOff E. Pelletreau for reasons 1.4 (b,d).

SUMMARY

1. (C) As winter approaches and tensions continue between Georgia and Russia, Armenians are increasingly concerned that Russian gas, shipped to Armenia through Georgia, will be cut off as happened in January 2006 (ref A). According to a USAID-funded expert, Armen Arzumanyan, if Russian gas is cut off, Armenia's existing natural gas reserves could last for 15 to 20 days at current consumption levels. If the GOAM takes steps to limit consumption, the reserves might last as long as 30 days. Deputy Energy Minister Iosif Isayan gave us more conservative estimates, saying that Armenia could continue with current rates of consumption if the cutoff were expected to last 12 days or less, but that if the GOAM thought the cutoff would last for a longer period, it would begin limiting consumption immediately. Isayan estimated that, even with radical steps to limit consumption, the GOAM could not shield residential consumers from the effects of a gas cutoff for more than 30 days. He said the GOAM's first reaction to a cutoff would be to limit industrial gas use. He noted, however, that limiting industrial access to gas might have a long-term negative economic impact, even if residential customers are not directly affected. END SUMMARY.

2. (C) Annual gas consumption in Armenia is estimated to be 1.7 billion cubic meters (BCM). Of this, 619 million cubic meters (MCM) serves to power Armenia's thermal power plants which generate approximately 30 percent of Armenia's electricity. Local industry uses approximately 770 MCM annually and residential use accounts for 310 MCM. In early 2006, the pipeline which transports Russian gas through Georgia to Armenia was damaged, halting gas exports to both Georgia and Armenia (ref A). Armenia was able to reduce consumption and rely on existing natural gas reserves to weather the 8-day cutoff. Given the deteriorating state of Russian-Georgian relations, many Armenians consider it probable that Russian gas exports to Armenia will be disrupted again this year or in early 2007.

RESIDENTIAL CONSUMERS WILL COME FIRST

3. (C) According to Arzumanyan, Armenia's current gas reserve storage of 110 MCM is sufficient to cover local demand for 15-20 days depending on local consumption and weather conditions. If the GOAM instructs the country's two largest

cement factories to suspend operations, the life of the reserve could be extended for an additional five days. The GOAM could also limit operations at the Hrazdan Thermal Power Plant, as it did earlier this year, potentially extending reserves for five more days, for a total of roughly 30 days reserve supply. Armenian Deputy Energy Minister Iosif Isayan gave us more conservative estimates. While he declined to speculate directly on the life of the reserve, he said if the GOAM believes the cutoff will be for 12 to 15 days, it will not need to take steps to limit consumption. If, however, it appears that the cutoff will last for a longer period, the GOAM will take steps to limit consumption immediately. The GOAM's priority would be residential users, Isayan told us, therefore the GOAM would seek to limit industrial gas use first. The GOAM could also limit operations at Armenia's thermal power plants, but eventually this would impact residential electricity consumers. He estimated that, if radical steps are taken to limit industrial consumption, residential consumers could be shielded from the effects of a gas cutoff for approximately 30 days. Even if residential consumers are not affected, there could be potentially devastating effects on Armenia's business reputation and future business development, Isayan cautioned.

LAKE SEVAN: A STRATEGIC RESERVE?

¶4. (C) Another option would be for the GOAM to resume full operations at the Sevan Hydro Power Plant (HPP). According to Arzumanyan, the Sevan HPP is capable of generating enough energy to replace the thermal power plants for a limited time, but the environmental cost would be severe. (NOTE: Since 1995, the GOAM has been working to restore the lake's

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water level which fell 19 meters in the 1960s and 1970s as a result of excessive irrigation and power generation, causing serious problems for fishing and tourism and also threatening Armenia's drinking water supply. Full-scale operation of the Sevan HPP would likely undermine much of the painstaking progress which has been made on these issues. END NOTE.) Furthermore, if consumers who currently rely on gas heat are forced to use electric heat instead, the increased pressure on the electrical distribution network may lead to network failures. Isayan dismissed the possibility of resuming full operations at the Sevan HPP. He said the GOAM had witnessed the devastating impact of full-scale operations at Sevan in the early 1990s and that "everyone" knows Lake Sevan is a nonrenewable resource that would take decades to replenish. "It is possible to experience cold, but no one would want to risk the potential catastrophe of that (i.e. of full-scale operations at Sevan)" he added.

IRANIAN GAS MAY HELP, BUT WILL NOT REPLACE RUSSIAN GAS

¶5. (C) Armenia's new gas pipeline with Iran may serve to mitigate the impact of a gas cutoff from Russia, but the pipeline is not yet operational. The GOAM has announced that the pipeline will be completed by December 20, but Arzumanyan told us that gas will not flow until mid-January at the earliest. Even once the pipeline is up and running, the second leg of the pipeline, needed to transport gas from the southern city of Kajaran to the Ararat Valley and Yerevan, has limited capacity (less than 1 MCM per day). Given that average consumption in Armenia during winter months is 7-8 MCM daily, the gas imported through the pipeline with Iran will not be sufficient to fully replace Russian gas imports unless and until the Kajaran-Ararat pipeline is upgraded (ref B).

COMMENT:

16. (C) Estimating how long Armenian gas reserves will last if Russian gas is cut off is a complicated business which depends on temperature, local consumption and steps the GOAM may take to limit consumption. It seems reasonably safe to say that the impact of a short-term 10-15 day disruption would be relatively limited. A longer-term disruption would be much more serious. Armenia, however, has very little capacity to influence the situation. In January 2006, the dire situation in Georgia was one reason why there was such significant pressure on Russia to restore the pipeline. If Georgia is able to secure alternate sources of gas (ref C), Armenia may be lobbying alone for restoration of the pipeline in the event of a cutoff. Some local analysts fear that Georgia's success in identifying alternatives to Russian gas may actually increase the risk for Armenia--which lacks Georgia's access to Caspian Sea gas--by emboldening Georgian leaders to take a harder line with Russia. While it seems unlikely that Russia will want to leave Armenia out in the cold, other factors, including sending a strong message to Georgia, may take higher precedence, leaving Armenia in very dire straits indeed.

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